STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

GREAT WESTERN INSURANCE COMPANY of

OGDEN, UTAH

as of

December 31, 2006

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January 10, 2008,

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2006, has been made of the financial condition and business affairs of:

Great Western Insurance Company.
Ogden, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was conducted as of December 31, 2003. The current examination covers the period from January 1, 2004 through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

A multi-state financial examination of the Company was performed using the Risk-Focused Surveillance Approach based on the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The intent is to broaden and enhance the identification of risks inherent in the Company's operations and utilize that evaluation in formulating the ongoing surveillance of the Company. The primary objectives of the examination were to reach overall conclusions about the governance and risk management environment under which the Company operates, as well as its financial condition and operating performance during the examination period.

The examination was conducted under the association plan of the NAIC. The participating examiners represented the Western zone.

The initial phase of the examination focused on evaluating the Company's governance, as well as its business approach, to develop an examination plan tailored to the Company's individual operating profile. Significant functional areas were selected for review. The following functional areas were selected for examination: Investments, Losses/Benefits, Other Assets, Payables, Premium, and Taxes.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering any mitigating factors. Mitigating factors considered included corporate governance and work performed by external auditors. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was signed by and received from the Company's management.

An independent certified public accounting (CPA) firm was retained to audit the Company's financial records for the years ended 2004 through 2006. Audit reports generated by the firm were made available for the examination's review. Audit working papers were made available to the examination and utilized for examination purposes when deemed appropriate.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company has addressed all of the important points and recommendations noted in the prior examination report.

HISTORY

General

The Company was incorporated as a stock life insurance company under the laws of the state of Utah on March 1, 1983. The state of Utah issued the Company a Certificate of Authority to write life and disability insurance on April 26, 1983. The articles of incorporation provide for a perpetual corporate existence.

In May 1989, the Company's parent corporation, Lindquist & Sons, sold a 50% interest of the Company to Desert Lawn, Inc., of Las Vegas, Nevada. On December 17, 1992, the remaining shares owned by Lindquist & Sons were sold to JAMEL Ltd., an affiliated organization. On March 18, 1996, Desert Lawn, Inc., and Palm Memorial Estate Plans, Inc. merged to form Palm Mortuary, Inc. As of December 31, 2006, 50% of the outstanding shares of the Company were owned by JAMEL Ltd., a non-insurance Utah Limited Partnership and Palm Mortuary, Inc., a non-insurance Nevada Corporation owned 50% of the outstanding shares.

In December 1998, the Company purchased a small inactive company, Great Western Life Insurance Company (GWLIC), domiciled in the state of Montana.

During the period covered by this examination, there were no amendments made to the bylaws or the articles of incorporation.

Capital Stock

As of December 31, 2006, the Company had 200,000 shares of authorized and outstanding capital stock with a par value of $12.50 per share. The controlling interest was shared equally between two shareholders, JAMEL Ltd., a Utah Limited Partnership and Palm Mortuary, Inc., a Nevada Corporation.

Dividends to Stockholders

The Company paid no dividends to stockholders during the examination period.

Management

The following persons served as directors of the Company as of December 31, 2006:

Name	Principal Occupation
John Aaron Lindquist Ogden, Utah	Chairman of the Board Great Western Insurance Company
Thomas Harry Johnson Phoenix, Arizona	Chairman Johnson Consulting Group
Kenneth Knauss Las Vegas, Nevada	Owner Palm Mortuary, Inc.
Roger Lee Kreml Las Vegas, Nevada	Controller Palm Mortuary, Inc.
John Ellis Lindquist Ogden, Utah	Owner Lindquist and Sons

Fred Leroy Meese Layton, Utah	Secretary/Treasurer Great Western Insurance Company

The officers of the Company as of December 31, 2006, were as follows:

Principal Officer	Office
John Ellis Lindquist	President
Kenneth Knauss	Vice-President
Fred Leroy Meese	Secretary/Treasurer

The members of the Principal Committees as of December 31, 2006, were as follows:

Executive Committee	Audit Committee
Kenneth Knauss	John Aaron Lindquist
John Ellis Lindquist	John Ellis Lindquist
Fred Leroy Meese	Kenneth Knauss

Conflict of Interest Procedure

During the period covered by the examination, directors or officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

Corporate records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors, shareholders and committees. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported the Company's transactions and events.

The prior examination report as of December 31, 2003, was distributed to the board of directors on August 24, 2004.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

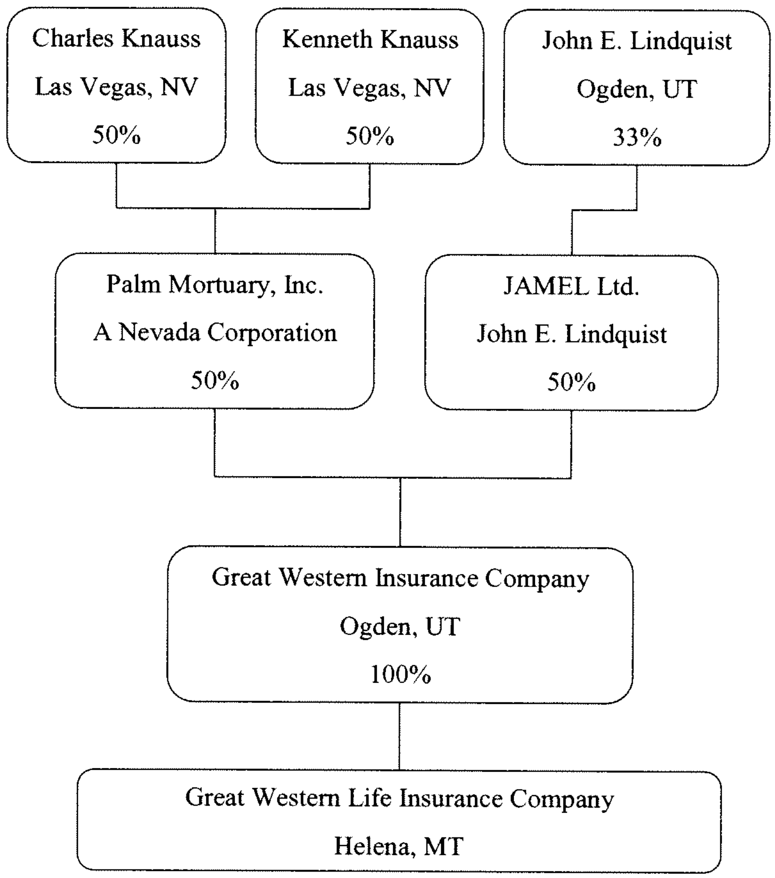
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

Surplus Debentures

No surplus debentures were issued or retired during the examination period and none were outstanding as of December 31, 2006.

AFFILIATED COMPANIES

The Company is a member of the following insurance holding company system:



Transactions with Affiliates

Since January 1999, the Company maintained an administrative services agreement with its subsidiary Great Western Life Insurance Company (GWLIC). Under terms of the agreement, the Company provided administrative services relative to the operation of GWLIC's insurance business. Specifically, GWLIC paid the Company on a quarterly basis for general accounting services of $1.50 per policy in-force and investment management services equal to 25 basis points of total cash and invested assets.

The Company purchased the home office building for $4,000,000 from Knauss and Lindquist Enterprises, LLC, an affiliate of JAMEL, Ltd, and Palm Mortuary, Inc. The Company granted first lien mortgages of $4,000,000 each to Palm Mortuary, Inc. and CJA Lindquist, Inc. CJA Lindquist, Inc. is an affiliate of JAMEL, Ltd. The mortgages are secured by real property.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for an insurer of the Company's size and premium volume is not less than $1,000,000. As of the examination date, the Company maintained fidelity bond coverage of $900,000. Subsequent to the examination as of date, the Company increased the fidelity bond coverage to $1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's pension and profit-sharing plan and insurance plans consisted of participation in programs underwritten by National Benefit Services. Participation in these programs was optional for employees. The 401K profit-sharing plan allowed eligible employees to contribute up to 100% of their wages. The Company matched pension contributions up to 5% of wages. Also, the Company made a profit sharing contribution annually based on the profitability of the Company. No unfunded liabilities are created by the profit sharing plan.

The Company provided to its qualified employees insurance programs which included health, dental, long-term disability and life insurance benefits. Provision was made in the financial statement for company obligations under these plans.

STATUTORY DEPOSITS

Pursuant to U.C.A §31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum capital requirement. The minimum capital requirement is $400,000 as specified by U.C.A. § 31A-5-211(2)(a). The special deposits maintained by or through regulatory agencies in the policyholder's behalf, as of December 31, 2006, were as follows:

State	Description	Statement Value	Fair Value
Utah	U.S. Treasury Bond	$3,278,997	$ 3,408,178
Utah	U.S. Treasury Bond	586,537	729,096
Utah	FNMA Bond	1,489,261	1,495,425
Total		$ 5,354,795	$ 5,632,699

Special deposits held through various state insurance departments and not held for the benefit of all policyholders as of December 31, 2006, were as follows:

State	Description	Statement Value	Fair Value
Georgia	U.S. Treasury Note	$150,000	$ 147,844
New Mexico	U.S. Treasury Note	150,000	141,334
North Carolina	U.S. Treasury Note	410,815	405,594
Total		$ 710,815	$ 694,772

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2006, the major portion of the Company's premium revenue was generated from the sale of whole life insurance policies designed to provide for the payment of funeral expenses. Plans offered include single premium, 1 year, 3 year, 5 year and 10 year guaranteed issue policies. Based upon the answers of the policy application health questions, a policy will be issued as a 1st day guaranteed issue or with benefit restrictions for the first two years.

Policies are presently written in amounts up to $20,000, the Company retains the full amount of risk on each policy.

The policy forms issued during the examination period were consistent with Department approved forms.

Territory and Plan of Operation

The Company was licensed and authorized to transact life and accident and health insurance in the following 43 states and the District of Columbia as of December 31, 2006.

Alabama	Georgia	Louisiana	Montana	Oklahoma	Utah
Arizona	Idaho	Maine	Nebraska	Oregon	Vermont
Arkansas	Illinois	Maryland	Nevada	Pennsylvania	Virginia
California	Indiana	Michigan	New Mexico	Rhode Island	Washington
Colorado	Iowa	Minnesota	North Carolina	South Carolina	West Virginia
Delaware	Kansas	Mississippi	North Dakota	South Dakota	Wisconsin
Florida	Kentucky	Missouri	Ohio	Tennessee	Wyoming
				Texas	District Of Columbia

As of December 31, 2006, the Company marketed its products under a general agency plan. A home office sales staff is maintained to service existing general agents and solicit additional general agents as determined by the marketing department.

Premium was written in 41 states and the District of Columbia, with the largest direct premium concentrated as follows:

State	Direct Premium
California	$21,421,600
Wisconsin	10,836,724
Arizona	9,716,834
Utah	9,606,107
Minnesota	9,109,059
Subtotal	60,690,324
All other States Etc.	60,340,320
Total Direct Premium	$121,030,644

Advertising and Sales Material

The Company markets its pre-need funeral insurance products through general agents and producers associated with funeral homes. The Company does not conduct an extensive advertising program to the general public. Most advertising consisted of a brochure and pamphlet containing general information. In addition, the Company maintains a web site with information on products and services. These items were reviewed and determined acceptable for examination purposes.

Treatment of Policyholders

As of December 31, 2006, the Company had in force 43,590 individual life insurance policies and 109,017 certificates for group life insurance.

During the examination period, there were no complaints filed with the Department and twenty four complaints filed with eleven other state regulatory entities. Complaints were resolved and closed satisfactorily. The Company has a formal complaint policy including the maintenance of complaint records. It demonstrated appropriate response to policyholder complaints and a high degree of control over the policyholder complaint process.

REINSURANCE

Assumed

As of July 11, 2001, the Company began assuming premiums from Southern Financial Life Insurance Company (SFLIC), a non-affiliated insurer. Under provisions contained in the agreement, the Company assumed 100% of the net written premium with a 6% ceding fee. The maximum amount of loss coverage was $20,000.

In September 2001, the Company executed an administrative services agreement with SFLIC. The agreement states that the Company will provide administrative services relating to certain SFLIC insurance products and will settle costs on a monthly basis.

Ceded

The Company neither maintained, nor entered into any ceded reinsurance arrangements during the examination period.

ACCOUNTS AND RECORDS

The Company utilizes a centralized computer record processing system, supplemented by ancillary records maintained either manually or on personal computers. A trial balance, as of December 31, 2006, was prepared from the Company's general ledger. Account balances were traced to annual statement reports, exhibits, and schedules without material exception. Individual account balances were examined as deemed necessary.

Deficiencies encountered by the examination relating to accounts and records include:

1. As of December 31, 2006, the Company held its statutory deposits and all other invested securities, pursuant to U.C.A. § 31A-4-108, under a custodial agreement with Merrill Lynch Trust Company, FSB. The agreement did not comply with Utah Administrative Code (U.A.C.) Rule R590-178.

   In August 2007, the Company transferred its invested securities, except for its statutory deposits, from Merrill Lynch Trust Company to broker/dealer accounts with

Merrill Lynch Pierce Fenner & Smith Incorporated (MLPF&S). On August 2, 2007, the Company signed custodial agreements with MLPF&S. On October 29, 2007, these agreements were amended to comply with the U.A.C. Rule R590-178.

In January 2008, the Company transferred its statutory deposits from Merrill Lynch Trust Company to Wells Fargo Bank, N.A. On January 4, 2008 the Company signed a custodial agreement with Wells Fargo Bank. This agreement complies with the U.A.C. Rule R590-178.

2. The Company reported home office real estate in the amount of $3,850,002. The basis of this valuation is the depreciated value of the real estate based upon replacement cost as determined by the original building contractor as of July 1, 2005, which is the date of purchase. The market valuation of the 2006 county tax assessment was $1,767,557. The basis for the Company valuation did not comply with the NAIC Accounting Practices and Procedures (AP&P) Manual, Statement of Statutory Accounting Principles (SSAP) No. 40, which prescribes the method for determination of fair value.

   On March 4, 2008, the examination reviewed a third party independent appraisal obtained by the Company, which valued the property at $3,800,000. Based upon the small and immaterial difference between the Company valuation and the independent third party appraisal, the examination accepted the valuation as reported by the Company.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2006

SUMMARY OF OPERATIONS for the Year Ended December 31, 2006

RECONCILIATION OF CAPITAL AND SURPLUS – 2004 through 2006

The accompanying NOTES TO FINANCIAL STATEMENT is an integral part of the financial statements.

GREAT WESTERN INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2006

ASSETS

	Amount
Bonds	$ 361,314,562
Preferred stocks	12,279,280
Common stocks	9,865,084
Mortgage loans on real estate: First liens	8,521,606
Real estate: Properties occupied by the company	3,850,002
Cash and short-term investments	25,855,380
Contract loans	266,644
Investment income due and accrued	4,485,506
Uncollected premiums and agents' balances	272,659
Deferred premiums, agents balances and installments	6,600,157
Net deferred tax asset	482,753
Electronic data processing equipment and software	53,232
Total assets	433,846,865

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserves for life contracts	381,855,231
Contract claims: Life	1,891,025
Provision for policyholders' dividends: Dividends apportioned for payment	4,318,965
Premiums and annuity considerations for life and health contracts received in advance	118,904
Interest Maintenance Reserve	1,047,849
Commissions to agents due or accrued	236,489
Commissions and expense allowances payable on reinsurance assumed	9,061
General expenses due or accrued	924,143
Taxes, licenses, and fees due or accrued, excluding federal income taxes	793,496
Current federal and foreign income taxes	870,294
Unearned investment income	11,848
Amounts withheld or retained by company as agent or trustee	15,031
Amounts held for agents' account	986,975
Remittances and items not allocated	206,310
Asset valuation reserve	2,647,910
Total liabilities	395,933,531
Common capital stock	2,500,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	31,413,334
Total capital and surplus	37,913,334
Total liabilities, capital and surplus	$ 433,846,865

GREAT WESTERN INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2006

Premium and annuity considerations for life and accident and health contracts	$ 130,739,383
Net investment income	24,463,325
Amortization of Interest Maintenance Reserve	33,525
Total revenues	155,236,233
Death benefits	45,484,056
Annuity benefits	1,513,187
Surrender benefits and withdrawals for life contracts	590,630
Increase in aggregate reserves for life and accident and health contracts	60,928,248
Total benefits and reserves	108,516,121
Commissions on premiums, annuity considerations and deposit-type contract funds	18,477,614
Commissions and expense allowances on reinsurance assumed	112,727
General insurance expenses	8,695,485
Insurance taxes, licenses and fees, excluding federal income taxes	3,253,641
Increase in loading on deferred and uncollected premiums	1,382,188
Total expenses	140,437,776
Net gain from operations before dividends to policyholders and federal income taxes	14,798,457
Dividends to policyholders	4,786,718
Net gain from operations after dividends to policyholders and before federal income taxes	10,011,739
Federal income taxes incurred	3,530,439
Net gains from operations after federal income taxes and before realized capital gains	6,481,300
Net realized capital gains or (losses)	69,376
Net income	$ 6,550,676

GREAT WESTERN INSURANCE COMPANY.
RECONCILIATION OF CAPITAL AND SURPLUS
2004 through 2006

	2004	2005	2006
Capital and surplus, December 31, previous year	$ 19,426,151	$ 24,023,173	$ 30,752,570
Net income	5,151,028	5,550,219	6,550,676
Change in net unrealized capital gains (losses)	1,289,097	663,644	439,493
Change in net deferred income tax	(230,459)		
Change in nonadmitted assets	(597,363)	153,548	(118,425)
Change in asset valuation reserve	(1,015,281)	(586,784)	289,018
Aggregate write-ins for gains and losses in surplus: CPA Audit Adjustment		948,770	
Rounding			2
Net change in capital and surplus for the year	4,597,022	6,729,397	7,160,764
Capital and surplus, December 31, current year	$ 24,023,173	$ 30,752,570	$ 37,913,334

NOTES TO FINANCIAL STATEMENT

There were no adjustments to the financial statements and it was determined that comments were not necessary.

CAPITAL AND SURPLUS

As of December 31, 2006

The Company's capital and surplus was reported to be $37,913,334. The examination determined that it was not necessary to make adjustments affecting capital and surplus.

The Company's minimum capital requirement was $400,000 as specified in U.C.A. § 31A-5-211(2)(a). The Company reported total adjusted capital of $42,728,422 and its authorized control level risk based capital requirement of $3,776,724.

SUBSEQUENT EVENTS

As of December 31, 2007

The Company's capital and surplus was reported to be $33,823,925 a decrease in surplus of $4,089,407 due to negative investment results. The Company reported total adjusted capital of $37,157,410 and its authorized control level risk based capital requirements of $4,535,116.

The Company attributes the negative investment results to current market disruptions caused by mortgage, credit, and bond rating uncertainties. This is the first net income loss since the inception of the Company. The investment losses are detailed below with the prior year results for comparison:

	2006	2007	Notes
Capital and surplus, December 31, previous year	$ 30,752,570	$ 37,913,332	
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	6,481,300	5,737,093	
Net realized capital gains or (losses)	69,376	(9,162,950)	(1)
Net income	$ 6,550,676	$ (3,425,857)	
Change in net unrealized capital gains (losses)	439,493	(2,044,122)	(2)
Change in nonadmitted assets	(118,425)	178,864	
Change in asset valuation reserve	289,018	1,201,708	
Net change in capital and surplus for the year	7,160,762	(4,089,407)	
Capital and surplus, December 31, current year	$ 37,913,332	$ 33,823,925	

(1) Net realized capital losses $ 9,162,950

The Company reported net realized capital losses of $9,162,950 in 2007, which includes $10,109,625 in other than temporary impairments for four mortgage back securities that are delinquent or otherwise not currently generating cash flows. In aggregate, following the write down, the securities have a reported book value of $3,076,003, which is 24% of the par value of $13,051,674.

(2) Change in net unrealized capital losses $ 2,044,122

The Company reported a change in net unrealized capital losses of $2,044,122 in 2007, including a $2,374,212 decrease in book value for seven loan backed securities, pursuant to the retrospective revaluation methodology specified in the NAIC AP&P Manual, SSAP No. 43.

SUMMARY OF EXAMINATION FINDINGS

The following is a summary of examination findings and significant information including subsequent events:

1. As of December 31, 2006, the Company held its statutory deposits and all other invested securities, pursuant to U.C.A. § 31A-4-108, under a custodial agreement with Merrill Lynch Trust Company, FSB. The agreement did not comply with U.A.C. Rule R590-178.

   During the examination, the Company transferred its invested assets, except for its statutory deposits, into brokerage accounts held with Merrill Lynch Pierce Fenner & Smith Incorporated and executed a custodial agreement that complied with U.A.C. Rule R590-178. It transferred its statutory deposits to Wells Fargo Bank, N.A and executed a compliant custodial agreement., The Board of Directors authorized both agreements on January 4, 2008. (ACCOUNTS AND RECORDS)

2. The Company reported home office real estate in the amount of $3,850,002. The basis of this valuation is the depreciated value of the real estate based upon replacement cost as determined by the original building contractor as of July 1, 2005, the date of purchase. The market valuation of the 2006 county tax assessment was $1,767,557. The basis for the Company valuation did not comply with the AP&P Manual, SSAP No. 40, which prescribes the method for determination of fair value.

   On March 4, 2008, the Company obtained a third party independent appraisal, which valued the property at $3,800,000. Based upon the small and immaterial difference between the Company valuation and the independent third party appraisal the examination accepted the valuation as reported by the Company. (ACCOUNTS AND RECORDS)

3. The Company reported that as of December 31, 2007, subsequent to the examination, it experienced a net income loss of $3,425,857 with a corresponding decrease in surplus of $4,089,407. The Company attributes the negative investment results to the current market disruptions caused by mortgage, credit, and bond rating uncertainties. This is the first net income loss since the inception of the Company. (SUBSEQUENT EVENTS, as of December 31, 2007)

ACKNOWLEDGEMENT

The courteous and responsive cooperation extended by employees of the Company is acknowledged and appreciated. Aaron Phillips, Financial Examiner participated in the examination. Colette M. Hogan, CFE, Assistant Chief Examiner, supervised the examination.

Respectfully Submitted,

Donald Catmull, CFE
Examiner-In-Charge
Utah Insurance Department